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I. Summary and Conclusions

The economies of the West Bank and Gaza** have grown rapidly in the past decade based on the earnings of workers in Israel, Jordan and the Arab oil states and the rapid modernization of agriculture. The new prosperity, which is clearly visible, has led to a housing construction boom, but little investment has gone into productive activities. Industrial development in the occupied territories has been carried out mainly by Israeli firms which, attracted by the relatively cheap labor and lower taxes, produce components for their Israeli operations.

Agriculture is still king in the economies of both areas, accounting directly for 35 percent of employment and 38 percent of GNP in the West Bank and 26 percent and 28 percent respectively in Gaza. Industry's share of GNP is less than 10 percent and much of that is related to the processing of agricultural products. The future growth of agriculture in the occupied territories will depend mainly on more efficient use of the reasonably productive land and water because additional supplies of each are quite limited.

*With apologies to J. M. Keynes

**Gaza, the Strip, and the Gaza Strip are used interchangeably in this paper. Any references to the town of Gaza are explicit.

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The West Bank and Gaza are full employment economies - the unemployment rate is under 1 percent, and that is entirely frictional. Under-employment is also declining. The boom in the territories and the attraction of jobs in Israel and the Gulf states have drawn excess labor from agriculture and the refugee camps. In fact, some kinds of labor are in short supply. However, to keep unemployment low in the years ahead will require a continuing high rate of growth to absorb the large numbers of youths about to enter the work force and the reservoir of women who are just beginning to take jobs outside the home.

The economies of Gaza and the West Bank, which are not complimentary to each other, both are now closely integrated into the Israeli economic system. Nearly one-third of those from the occupied territories with jobs work in Israel and their earnings account directly or indirectly for nearly half of West Bank and Gaza GNP. The territories receive 91 percent of their imports from Israel and send Israel 65 percent of their exports. The communications, transportation and power systems have become closely intertwined over the last decade - much to the discomfort of many West Bank and Gaza Arabs. In certain areas, however, such as education, tax systems, finance, banking and public attitudes, Israel and the occupied territories remain far apart.

The occupied territories are able to finance large deficits in their merchandise accounts by the remittances of their workers with jobs in Israel and elsewhere. In addition, considerable savings in the form of gold and foreign currency have been accumulated and are held both in Gaza and the West Bank and abroad. A major developmental problem facing the territories is how to combine these funds with the necessary entrepreneurial and labor skills to promote economic growth.

West Bank and Gaza Arabs tend to view their present economic situation and the events of the last ten years in an entirely different light than do the Israelis. The Israelis see themselves primarily as benefactors who have brought unparalleled economic opportunities to the West

Bank and Gaza. The inhabitants of the territories only reluctantly admit that Israeli occupation has brought any economic benefit. They see present arrangements, such as the employment opportunities in Israel, as burdens. This difference in perception is extremely important in determining how Israelis and Arabs look toward the future and the kind of economic arrangements they would seek should peace be achieved. The Arabs would like protection against what they consider present exploitive Israeli practices. The Israelis cannot understand why the economic interdependence of Israel, Gaza and the West Bank, which improves the economic well-being of all, should be interrupted by a peace agreement.

The following conclusions have been reached after a survey of the West Bank and Gaza economies and are meant to serve as check points for those who are thinking about the forms these economies might take under a variety of political arrangements. No assumptions about political structures have been made:

- The West Bank and Gaza will need open borders with Israel and Jordan and free access to the Arab oil states and the western industrial countries to maximize their economic potential. Ideally, there should be a free trade area and customs union with Israel (and possibly also with Jordan), both to promote economic efficiency and to avoid the extremely difficult problems in creating a "corridor" between Gaza and the West Bank,
- The West Bank and Gaza cannot provide jobs for substantial numbers of Palestinian refugees from outside the territories for the foreseeable future. Agriculture is already at its limit in terms of employment opportunities and rapid expansion in the other sectors of the economy will be needed to furnish jobs for the large number of youths and women who will be entering the job market.

- The development of industry over the medium term will require the importation of most of the capital, technology and entrepreneurial skills. The West Bank/Gaza contribution should be mainly people to fill the middle management and worker positions. Only after some years of training, of successes and of political stability will West Bankers and Gazans be able to supply all the needed inputs. The economic model for the economy probably could resemble the one used by Singapore and Hong Kong.
- In economic terms, it is as important that the other Arab states accept Gaza and West Bank products, perhaps on a preferred basis, as it is for them to supply aid or investment funds. There will be a clear trade-off between trade and aid. If the West Bank and Gaza are closely linked to Israel, the problem to be overcome will be essentially political: how the other Arabs can help the Palestinians without also helping the Israelis?
- Any attempt to protect West Bank and Gaza infant industry from Israeli competition will almost certainly lead to progressive raising of trade barriers by both sides to the economic detriment of both.
- Tourism could become a major industry in the occupied territories. In the West Bank the future political status of Jerusalem will be important to tourism development.
- The equitable distribution of water supplies among Israel, Jordan, Gaza and the West Bank must be dealt with in any peace settlement.
- The Israeli residential and industrial settlements in the occupied territories could provide economic benefits to both Arabs and Jews. This probably is not true of the agricultural



TERRITORY OCCUPIED BY ISRAEL
SINCE JUNE 1967

LEBANON

Galilee

Harta

ISRAEL

MEDITERRANEAN SEA

Tel Aviv
Jaffa

Jordan River

Jerusalem

WEST BANK

Jerusalem

JORDAN

Dead Sea

Gaza Strip

Negbo

Scale

settlements along the Jordan River where the use by the settlements of the limited supply of good land and water is at the expense of the Arabs.

II. Framework of Analysis

This study is not intended to be exhaustive. Rather, the aim is to present a broad overview of the existing economic conditions in the West Bank and Gaza and to enumerate those important economic factors which should be considered regardless of the political shape which a peace settlement involving the occupied territories might take. The conclusions are meant to be a check list for policy makers and no particular political solution is implied.

The sources used as background for this analysis include books, articles and pamphlets on the Gaza and West Bank economies (of which there is a surprisingly large number)¹; discussions with Israeli economic officials, Ministry of Labor functionaries, and military commanders in the occupied territories, West Bank and Gaza business, financial and agricultural leaders, and others knowledgeable about the area. Several field trips were also taken by the author to the occupied territories. In addition, invaluable assistance was provided by the staff of the American Consulate General in Jerusalem, who cooperated with this project and share its general conclusions.

The treatment of the West Bank and Gaza as a prospective economic unit is dictated by political rather than economic considerations. For the purpose of this paper, it is assumed that Gaza and the West Bank in a peace agreement will be economically linked - i.e., there will be no return to the pre-1967 Gaza-Egypt and West Bank-Jordan arrangements. The need to accommodate Gaza and its physical separation from the West Bank and Jordan dictate this approach.

¹See Benefits & Burdens: A Report on the West Bank and Gaza: Their Economics Since 1967 by Brian Van Arkadie (Carnegie Endowment for International Peace, 1977) for an extensive bibliography.

The areas do not complement each other economically and their separation by 25 miles of Israel makes their linkage even more tenuous. The economic problems of the two areas have been looked at before in terms of economic "viability" (see the West Bank - Is It Viable? by Vivian A. Bull). In this study, the viability issue will not be tackled. Our central questions will be what levels of economic activity can the West Bank and Gaza sustain under a variety of circumstances and what the main bottlenecks are to economic development.

Any economic analysis on the West Bank and Gaza should contain an early and strong warning about the unreliability of the data available. Part of the problem is that no separate data for the areas being studied was collected prior to 1967. Gaza was included in Egyptian statistics and the West Bank in Jordan. The time series compiled by the Israeli Central Bureau of Statistics (CBS) over the past ten years are used by all students of the West Bank and Gaza economies - not because their accuracy is thought to be high, but because there are no others. Even using the same data source, Israelis, Arabs and "dispassionate observers" have been able to come to very different conclusions. This is partly attributable to the political lenses through which they look at the world. The ambiguity of the data in some cases also facilitates wildly different interpretations. Therefore, an attempt has been made in this analysis to look toward the future on the basis of clearly discernible trends and to avoid judgements which require precise measurements. It should be kept in mind that all data on the occupied areas exclude the population and economic activity of Israeli settlements, which are treated by the GOI as Israeli territory for the sake of economic activity, and the annexed areas of Jerusalem.

III. Macroeconomic Situation

A. The Land.

Gaza and West Bank combined have a total land area of approximately 2,600 square miles, roughly half

the size of the State of Connecticut. Of the total area, Gaza is only approximately 150 square miles.

Gaza is a low-lying strip of Mediterranean coast which in earlier days was sparsely populated. The population rose dramatically as a result of Israel's 1948 war of independence, when large numbers of Palestinian Arabs took refuge in the area which was under Egyptian control. The Strip is approximately 25 miles long with an average width of six miles. Nearly two-thirds of Gaza's area is under cultivation and about half of that is irrigated. The water comes from wells which tap the aquifer layers on which the oasis feeds. Most of the uncultivated land area is used as living space for people - the largest being Gaza City. The average rainfall is about 14 inches.

The West Bank has several distinct topographical zones in its nearly 2,500 square miles. The northern tip is an extension of the Jezreel Valley, which is located primarily in Israel. The northwestern portion nearest the sea rises gently from the Plain of Sharon. The highlands run through the central portion of the West Bank area on a north/south axis. To the east of the highlands there is a sharp drop from about 2,500 feet altitude to more than 1,000 feet below sea level in the Dead Sea area. Rainfall is heaviest in the northern tip and the Sharon Plains region, about 30 inches a year. It diminishes sharply from north to south and from the west to the east. Between the mountains and the Jordan River/Dead Sea is the Jordan Valley, where rainfall is negligible.

The soil in the flatlands area and in the valleys of the region north of Jerusalem is reasonably fertile. The hillsides are extensively cultivated with olive and fruit orchards on terraces which go back to the Roman era. In the Judean hills south of Jerusalem, the soil is of poorer quality and much of it is unsuitable for agriculture even

when water is available. Nevertheless, the valleys and the terraced hillsides of the south highlands area are one of history's most famous wine and table grape growing areas. The grape is to the south what the olive is to the north.

The Jordan Valley and the strip along the Dead Sea are hot and very dry. Some of the land is saline and completely barren. Other, however, is of fairly good quality and can be quite productive when water is applied.

B. The People and the Labor Force.

Israeli sources place the population of the West Bank and Gaza at 1,106,800 people in 1976. Of that number, 680,500 live in the West Bank and 426,400 in Gaza and Northern Sinai.² Included in the above figures are an estimated 310,000 refugees,³ of which 240,000 still live in camps. Of the 105,000 refugees in the West Bank, 65,000 are in camps; in Gaza 175,000 of the 205,000 refugees (nearly half the population) are in camps. There are 19 refugee camps in the West Bank and eight in the Gaza Strip.

The population distribution in the West Bank is as different from that of Gaza as is the topography of the two areas. In the West Bank most of the people are concentrated on the slopes of the central mountain range. Half the population is rural and they live in 450 villages containing 50,000 families. The northern part of the West Bank is more heavily

² Northern Sinai is included to account for a few thousand Bedouin who wander in and out of Gaza. It does not include Israeli settlements in Sinai.

³ A refugee is defined as any person living in the occupied territories, the head of whose family lived in the territory of Israel before 1948.

populated than is the area south of Jerusalem. The main towns are Jenin, Nablus, Tulkarm and Ramallah (north of Jerusalem) and Bethlehem and Hebron (south of Jerusalem). There are very few people in the Jordan River Valley with the exception of the area around Jericho. The population of the West Bank was estimated at approximately 900,000 in 1967 before the June war.

As previously described, Gaza is heavily populated. The towns of Gaza, Khan Yunis and Rafiah form an almost continuous urban band. The land which is not lived on is farmed - the exception being a dune area between the beach and the beginning of the citrus groves about a half a mile inland.

The people in both areas tend to be young. Forty-eight percent of the population in Gaza and 47 percent in the West Bank are 14 years of age or under. The median age is 15.9 years. The rate of natural population increase for the total area is 3.14 percent. This is composed of a 2.92 percent increase in the West Bank and a 3.5 percent increase in Gaza, using 1975 figures. However, because of out-migration, the population growth is usually smaller. The population of the total area grew 1.7 percent in 1975. Of this, 0.9 percent growth was registered in the West Bank and 3.1 percent in Gaza and Northern Sinai. There are a few more males than females in the West Bank and the reverse is true in Gaza.

The above population characteristics are reflected in the portion of the population of working age. Because of the relative youth of the population, less than 50 percent are of working age (15-64 years). For the area, the working age population totals 591,800, of which 366,800 are in the West Bank and 225,000 in Gaza. The number of people actually employed is much smaller. Only 204,900 people out of the more than 1,100,000 who live in

the occupied territories have jobs. This is barely more than 20 percent of the population, a strikingly low proportion. The reason is simple; fewer than 10 percent of the women in the working age population have jobs. This is essentially a culturally dictated phenomenon linked to traditional Arab restrictions on women's activities. It is changing only slowly. Underemployment, usually in agriculture, is also declining as other job opportunities expand.

Of the 204,900 Gazans and West Bankers employed, approximately 66,000 work in Israel, usually commuting each day.⁴ Of those West Bankers with jobs, 92,000 work locally and 40,400 in Israel, for a total of 132,400. In Gaza the numbers are 46,700 working locally and 26,100 in Israel, for a total of 72,800 employed. Stated another way, nearly one of every five works in Israel. This has created a strong and, to some people, troubling economic interdependence between the economies. The GOI points with considerable pride to the fact that workers on the average are paid 81 percent of the wages which Israelis earn for the same work and those employed through the labor exchange receive full unemployment, social security and other benefits.

Table 3 gives a breakout of employment in the West Bank and Gaza by types of activity. Nearly a third of the total work force is in agriculture, 14 percent in industry, 7 percent in construction, 18 percent in public and community services and the remaining 29 percent in trade, transport and other services. Of those who work in Israel, 55 percent are in the construction trade, 18 percent in industry and 15 percent in agriculture. In Gaza 38 percent of the total employed population works in trade, transport and services.

⁴This estimate is arrived at by counting those registered with the GOI Ministry of Labor and increasing the number by about 50 percent to take into account the "black workers" believed to have jobs in Israel. ConGen Jerusalem estimates that over 30,000 Arab Palestinians work in Jordan and the Gulf States. They are not included in these statistics.

There is virtually no unemployment in either the West Bank or Gaza. In 1975 the overall unemployment rate was 0.9 percent, composed of 1.1 percent in the West Bank and 0.6 percent in Gaza -- all of it frictional unemployment. The low rate is largely explained by the willingness of those who want to work to take whatever jobs are available, even if it involves switching to a new type of activity. The remarkably low unemployment rate has persisted in recent years in the face of a recession in the Israeli economy -- reflecting a preference of Israeli employers for Palestinian⁵ workers in many activities because they cost less and are more productive than their Israeli counterparts. By no means are all employees of such labor Israeli Jews. In fact, a substantial portion of the "black workers" have jobs, frequently seasonal in nature, working for Israeli Arabs in agriculture or services.

Although the number of West Bankers and Gazans employed in Israel has dropped off somewhat from the high of around 70,000 which was reached in 1975, those who lost their jobs in Israel were able to find new ones, primarily in the construction boom going on in the West Bank and Gaza. There is presently a labor shortage in the occupied territories, as verified by the statements of Arab employers and the fact that the graduates of the vocational training centers are all placed easily.

Some Gazans and West Bankers look upon the export of workers to Israel as a negative economic factor as well as the cause of social problems. In terms of opportunity costs calculations, the occupied territories are almost certainly better off having the workers go to Israel than if these people stayed to work in their own localities. The social costs probably are not particularly high because nearly all such workers return to their homes each night.

⁵For the purposes of this paper the term "Palestinian" is used as shorthand for any Arab living in the West Bank and Gaza.

This is not true of the 'undetermined thousands of Gazans and West Bankers who have jobs in Jordan and the Arab oil states. These people, who tend to be more highly skilled than those who work in Israel, leave their families in the occupied areas for months or years at a time. Their remittances add substantially to the economic welfare of the area, but there are, no doubt, social costs to this arrangement. The workers themselves clearly think that the benefits outweigh the costs and their employment has taken on an increasingly permanent character according to data from the labor exchanges.

C. GNP & GDP

Tables 4, 5 and 6 give details of the Gross National Product (GNP) of the West Bank and Gaza by factor cost, by sector and by resources and uses. The data lead to the following observations:

1. Growth in real GNP in both areas since 1968 has been most impressive, about 14 percent a year on the average. However, the rate has slowed down, perhaps to 6-9 percent since 1974.
2. The major forces behind this high growth rate have been increase in factor payments from abroad (mainly worker remittances from Israel), advances in agricultural output and a construction boom. Industry has kept pace with GNP growth.
3. The service sector has been decreasing in relative importance as GNP has grown.
4. Gross Domestic Product (GDP) growth, while slower than the increases in GNP, has also been rapid.

5. Per capita GNP in East Bank Jordan and the West Bank are now approximately equal at about \$900.
6. Per capita GNP in Gaza is about 70 percent of that of the West Bank.
7. Despite a relatively high savings rate, investment has been quite low and most of that has been concentrated in housing.

The strong dependence of the occupied territories on remittances from abroad is very troublesome to West Bank and Gaza leaders. According to CBS figures, net factor income from abroad averaged \$177 million for the occupied territories in 1974-75. This figure probably is an understatement of the actual situation. In fact, no reliable data exist on remittances to the occupied territories except from Israel nor is there any official estimate of how many West Bankers and Gazans work abroad (other than in Israel). Remittances are made through a labyrinth of unofficial channels and family connections which makes accurate record keeping impossible.

The discomfort that West Bank and Gaza leaders feel about this situation is easy to explain: Palestintian workers in Israel and elsewhere remain at the sufferance of the host governments. The workers can be cut off from employment by shifts in the political winds. A heavy dependence of this type is politically inhibiting, even if no direct action against expatriate workers is ever taken.

D. The BOP and Foreign Trade

Tables 7 and 8 on the balance of payments and foreign trade reveal the following patterns:

- The occupied areas are heavily dependent on foreign trade.

- Both Gaza and the West Bank have large merchandise deficits in their balance of payments. The overall BOP is in surplus, however, because of exports of personal services (workers in Israel), remittances from workers in other countries and transfers from abroad by such organizations as UNRWA and governments.
- The economies of both areas are very closely tied to Israel. The combined areas receive 91 percent of their imports from Israel and send it 65 percent of their exports. Only 2 percent of imports come from Jordan and 27 percent of exports are sent there, including those which are transshipped to other areas (such as Gaza citrus to Iran).
- Eighty-three percent of total imports and 69 percent of exports are industrial goods. The industrial exports are mainly products which are manufactured under sub-contract to Israeli firms and destined for the food, textile and building material sectors.
- Gaza's exports other than to Israel are mainly citrus and the West Bank's agricultural exports to Jordan mostly olive oil and semana, a product similar to butter oil.

E. The Monetary Situation, Finance, and Savings and Investment

There is no conscious monetary policy in the occupied territories. Approximately 90 percent of the means of exchanges is currency in circulation. In the West Bank both Israeli currency and the Jordanian dinar are legal tender. In Gaza only the Israeli pound is legal tender but residents have free access to foreign currency and gold. The Arab population in both areas chooses to keep only minimum balances in Israeli pounds - in part because of the rapid depreciation of the pound and partially because of

political factors. Substantial savings are kept in Jordan and elsewhere. A large but unquantified portion is held in cash or specie by individuals who use these assets to supplement consumption when income drops temporarily and as emergency reserves. The high liquidity preference stems from a combination of political uncertainty and cultural factors.

Only Israeli banks operate in Gaza and the West Bank. Their role in the economy is quite limited - their credit and deposit facilities being used primarily by Israelis. There is, however, an extensive network of West Bank money changers which performs a variety of semi-banking facilities such as transferring balances between local residents and overseas. Thus, the money supply can expand and contract significantly without any apparent reasons. The GOI has chosen not to impose restrictions on this practice, although it is exploring the possibility of allowing Arab banks to operate in the occupied areas.

Under these conditions, the relative large savings by West Bankers and Gazans are not transformed into productive investment in the occupied areas. The result is a lower level of economic activity than would be otherwise possible. Most observers agree that considerable time and favorable investment conditions would be needed before these deeply ingrained habits will change. In the meanwhile, most of the risk capital for productive enterprises will have to come from external sources.

GOI data show that the inflation rate in the occupied territories closely follows that of the Israeli economy. This is not surprising considering the close integration of the three areas. It is, however, misleading so far as the West Bank is concerned. All GOI price data is in pounds. Actual transactions in the West Bank are frequently in Jordanian dinars. Dinar prices have risen quite slowly in recent years. Therefore, the perceived inflation rate for West Bankers is much less than the data suggest. In Gaza, the data are nearer the real case.

F. The Infrastructure

During the years immediately following 1967, the GOI devoted some of its own resources to improving West Bank and Gaza infrastructure in transportation, communications, electricity and municipal water supplies. In recent years, these net transfers have disappeared and such projects have been financed with local funds. The tax structures in the occupied territories have been left more or less in their pre-1967 forms. While the services in the territories are still less developed than in Israel, they have shown steady improvement in a number of areas. Roads are generally good and fully integrated into the Israeli network. Municipal water systems are frequently inadequate during the dry season, but are getting better. Electricity has been extended to many new areas by local cooperative efforts and some West Bank towns have been connected to the Israeli grid as has all of Gaza. The telephone systems are antiquated and entirely inadequate, however. There are no railroads nor airlines.

The absence of any modern port facilities in the occupied territories has given rise to speculation about possible arrangements should peace be achieved. Four possibilities exist: use of Israeli ports; use of Aqaba; construction of a port in Gaza; and some combination of the above. In purely economic terms, use of Israeli ports is preferable. Haifa can easily handle cargos destined for the northern portion of the West Bank, and Ashdod could serve Gaza and the southern West Bank area. Transportation from Aqaba to the occupied territories is quite expensive. Construction of a port in Gaza would also require significant capital expenditures. Therefore, the creation of an alternative to Israeli ports would have to be justified mainly on political grounds.

Palestinian Arabs are proud of their reputation as being the best educated Arab elements in the region. In general, schools have been left under local autonomy by the GOI with the Jordanian curriculum still

in use in the West Bank and the Egyptian system in Gaza. Existing higher education facilities have been expanded in the West Bank in recent years and a new college established in Nablus. There is no college or university in Gaza. Students from both areas who want to pursue specialized training must go abroad to do so - a serious impediment to all but a privileged few. As indicated by the large number of educated Palestinians working in Jordan and the Arab oil states and the continuing demand for new graduates, the West Bank and Gaza still enjoy their comparative advantage in human capital. That this asset is exported instead of being used locally has economic as well as social costs, however.

IV. The Microeconomic Situation

A. Agriculture

Agriculture is the economic mainstay of both the West Bank and Gaza. In the West Bank, 35 percent of employment and 38 percent of the GNP was generated in the agricultural sector in the 1974-75 period. The comparable numbers in Gaza were 26 percent of employment and 28 percent of the GNP. Approximately another 20 percent of the economy in each area provides services to the agricultural sector. It is necessary to do these calculations on an average year basis because, particularly in the West Bank, agricultural activity has wide variations, depending on rainfall. It should be noted that agriculture also provides much of the basis for such industry as exists in both areas.

There are slightly over 2.2 million dunams⁶ of land cultivated in the West Bank and Gaza. Two million of those are in the West Bank, but only 80 to 90

⁶ One dunam equals approximately one-fourth acre or one-tenth of a hectare.

thousand dunams of that are irrigated. In Gaza about 95,000 dunams are irrigated - nearly half the total cultivated land in the Strip. This disparity in the use of irrigation reflects the almost totally different kinds of agriculture pursued in the two areas.

In the West Bank a large part of the cultivated area is planted on the terraced hillsides and in the valleys. In the area between Ramallah and the northern border of the West Bank an estimated 600,000 dunams are planted in olive trees alone. In the south, the grape is king. Because almost 95 percent of the area is dry farmed, yields vary widely from one year to the next depending on rainfall. Most of the 80,000 to 90,000 dunams of irrigated land use the inefficient flood irrigation system with wells as their water source. With the exception of a small area around Jericho, almost the entire irrigated area is in the northern valleys and western slopes. The estimated annual water use for agriculture is 70 million cubic meters in the West Bank area.

The West Bank produces wheat, potatoes, a large variety of vegetables, citrus, livestock, poultry, fats and oils, and animal feed. It is a net importer of all of these food items with the exception of vegetables and fats and oils (olive oil). Fruit and olives usually account for about one-third of the value of agricultural output but can rise to 50 percent in an exceptional year when the biennial olive cycle coincides with good weather.

Livestock and their products contribute slightly over 25 percent of the value of total agricultural production. Livestock in the West Bank, primarily sheep and goats, numbered approximately 500,000 thousand head in 1975. There are also cattle, donkeys, horses and a few camels. Sheep produce 45 percent of the total meat output. Because of the destructive grazing characteristics of the

goats, a conscious effort by the West Bank military government has been made in the last few years to reduce the number on the land. Another program has been adopted which encourages farmers to fatten lambs to a heavier marketing weight than has previously been their custom, with the idea that the total meat deficit, which amounts to approximately 2,700 tons annually, can be closed. This would also raise the return per animal to growers.

Most West Bank farms are small. Approximately 65 percent of all farms have between 10 and 40 dunams. On the other hand, 10 percent of all farms cultivated have 100 dunams or more. Because of the large sizes of these farms, they include half the cultivated land in the West Bank. They are frequently owned by absentee landlords and are worked by sharecropping arrangements. Titles to these large tracts are usually clear as contrasted to the situation in the smaller holdings. Because sharecroppers' tenancy is of very unsure duration, there is little incentive for them to make improvements in the land they work.

Another problem is the Arab practice of splitting landholdings equally among male heirs. This means that many plots now must be farmed cooperatively if they are to support even one family.

Since 1967 there has been what Israelis like to call an agricultural revolution in the West Bank area. According to the Central Bureau of Statistics, real growth in agricultural output between 1967 and 1974 was at an average rate of 16 percent annually. The overall real increase during the period was 260 percent. Without getting into the question of motives or the details of what has actually occurred, the output per farm worker and the general level of prosperity in the rural sector in the West Bank is obviously much improved over the situation some years ago. Agriculture has become increasingly mechanized, and the use of inputs such as fertilizer, herbicides

and improved seeds is growing rapidly. The use of plastic covers for winter crops is increasingly visible in the West Bank area. There are currently some 7,500 dunams on West Bank farms devoted to this activity. Mainly they produce winter vegetables, some for local consumption and some for export. This plastic cover farming is mainly in the western slope area and the lowlands on the edges of the Plain of Sharon.

One effect of the changes in agriculture has been to free labor from the land and make it available for other uses. Many of those working in Israel come from farms and have either been forced off the land by the new methods or have chosen to work their plots only part-time.

There is some room for future advances in West Bank agriculture, but not a great deal. Most good land is already under cultivation. With improved technology, output from this area can be increased and some marginal land brought under cultivation. Water is the second important limiting factor, and here West Bank aspirations conflict directly with Israeli interests. Much more efficient use can be made of the water resources by the use of better irrigation methods and by capturing and storing surface water. However, the West Bank and adjacent Israeli territory share the same aquifer layer. Water taken by one area is at the expense of water availability in the other. The Israelis oppose the "tilting of the water table" toward the West Bank and have therefore put strict limits on water which can be pumped there for irrigation. West Bankers believe that the Israeli authorities have also been uncooperative in promoting better surface water use in the highlands. Israeli authorities reportedly want to see adequate runoff into the Jordan Valley to recharge the water table used there to irrigate the Israeli agricultural settlements strung along the Jordan. In addition to using scarce water, the Arabs charge that the

settlements, which now total 40,000 dunams of irrigated land, are taking over most of the hitherto unused land suitable for cultivation in the West Bank as well as adjacent Arab land already being farmed. They are the focus of strong West Bank resentment.

Even if most of the above problems can be solved, the absolute and relative numbers of people who can be usefully employed in agriculture will probably continue to shrink in the years ahead. Thus, agriculture will remain very important to the West Bank economy but cannot be relied upon as a major engine of employment growth.

Agriculture in the Gaza Strip is much less diverse but no less important to the economy than it is in the West Bank. As previously mentioned, of the 370,000 dunams in the Gaza land area, approximately 210,000 dunams are under cultivation, of which nearly half are irrigated. Slightly over 70,000 dunams of the irrigated land are in citrus production and the remainder in vegetables. Of total agriculture, 60 percent is calculated to be in annual crops and 40 percent in perennial crops. The latter category is mainly citrus fruits. Production from the citrus orchards account for about one-half of Gaza's total agricultural output. There are approximately 19,000 farms in Gaza. Roughly half of these are employed hired labor and the other half are family operated.

The agricultural "revolution" has also been felt in Gaza. In the period 1968 to 1974, Israeli calculations are that agricultural output has grown 1.8 times in real terms. This is slightly below the achievement of the West Bank but impressive by any measure.

Gaza is presently near the limit of its agricultural output using present production techniques. The main limiting factor is water. Until fairly recently Gaza citrus and vegetable farmers were allowed to sink wells almost without restrictions. The water from

the wells was used in canals and ditches for flood irrigation, a method which is far less efficient than the sprinkler and drip systems used in Israel. A point has now been reached where 25 million cubic meters of water is being pumped out of the Gaza water table than is put into it each year. The result has been salt water encroachment from the sea, particularly in the southern end of the Strip. Unless arrested by effective water management, the salt water encroachment eventually will destroy a large part of Gaza agriculture, and with it Gaza's prosperity. Israeli authorities are now taking some unpopular measures to cut back on water usage and allow the water table to build up again. Gauges have been put on pumps to limit consumption and a grant/loan incentive program has been started to encourage conversion to drip or sprinkler systems. However, even more active measures, such as the recharging of wells, may be required to push the salt water back toward the sea. Meanwhile, damage is increasingly visible in the yellowish citrus foliage which can be seen in the affected areas.

In the short and medium term, the best hope for the expansion of Gaza agriculture is in the newly developed "mawan" method of farming. In the coastal areas bulldozers have scraped away the sand dunes to create 4,000 dunams of truck gardens sitting just on top of the water table. With the application of fertilizer, bumper crops of vegetables and strawberries are produced without irrigation. Since the water table used is separate from that supplying the irrigation wells, there is no trade-off in water terms.

Arabs and Israelis agree that part of the credit for the sharp increase in farm income and production in agriculture is the availability of a highly competent and well motivated extension service. Most of the extension agents are native West Bankers or

Gazans, but the selective use of high quality Israeli experts in teaching and supervisory positions has also been helpful. In the years shortly after the 1967 war, the GOI, as a matter of policy, made easy credit available to Arab farmers as a means of providing an incentive to purchase tractors and other modern farm implements. Notwithstanding the above, everyone agrees that the main factor in the "revolution" is the farmer himself, who has proven to be adaptable, hard-working and intelligent.

Some West Bankers claim that the progress which has been made in agriculture has been despite rather than because of Israeli help. They complain of Israeli restrictions on water use which they believe favor Israeli interests. They claim that the Israeli agricultural policy is essentially colonial in nature -- the farmer is alright so long as he produces in contract to the specifications of an Israeli firm. Even though restrictions on the movement of farm products from the occupied territories into Israel have not been removed, the Arabs believe that Israeli dumping of certain products and other more subtle practices prevent West Bank farmers from engaging in activities which Israeli interests wish to reserve for themselves. One frequently cited example is the poultry industry. Since the production of eggs and poultry is subsidized by the government in Israel, West Bankers claim that the Israeli producers or the government, they are not sure which, frequently dump poultry products into the West Bank and depress prices below the break even level when West Bank producers start to gain a toehold.

In arguing against the idea that Israeli technology was introduced as a matter of goodwill into the occupied territories, Arabs often claim that this process had begun long before the Israeli occupation and was essentially indigenous in nature. As proof, they point to the modern agriculture being pursued on the East Bank of the Jordan today -- including drip irrigation and plastic cover farming. They reject

the Israeli conviction that the demonstration effect of exposure to modern agricultural methods has been to transport the technology from Israel to the West Bank and subsequently into the East Bank.

This whole controversy, while sterile and pointless in economic terms, is indicative of the huge gap in perceptions between the Israeli authorities and the Arabs in the occupied territories. Israeli military authorities, and indeed the Israeli public, believe that their administration of the West Bank has been mostly benevolent and only as despotic as security factors dictated. The Arabs are loath to admit that anything good has come from the occupation, even by accident. Anyway, they argue, things would have been better yet if there had been no occupation at all.

B. Industry and Construction

It doesn't take long to describe West Bank and Gaza industry because there is not very much of it. What there is is mostly small workshop type production. In 1972 only five factories in the West Bank and Gaza employed more than 100 people. The number probably is not appreciably higher today. The two main growth sectors of industrial output have been created since 1967: production units which supply components for Israeli plants on sub-contract; and those which process raw materials and agricultural products for sale in the occupied areas and for export. In the northern part of the West Bank, industries linked to the processing of olives (oil pressing, soap manufacturing) are of major importance. In the south, building stone quarrying and finishing are among the principal activities. Other important industrial products are cigarettes, plastics, chocolate candy, pharmaceuticals, shoes and clothing. Most Gaza industry is located in the Erez development at the border of the Strip with Israel. There mainly Israeli investors have set up small plants for the production of components for their larger operations in Israel or, in a few cases, for carrying out the entire manufacturing operation. Except for the

citrus and vegetable processing plants, the other manufacturing operations in Gaza are of the handi-craft variety. In the West Bank and Gaza, Israeli clothing makers send pieces into individual homes for sewing and hand finishing.

As noted elsewhere, manufacturing accounts for 14 percent of the total employment in the occupied areas -- 16 percent of employment in the West Bank and 13 percent in Gaza. On the other hand, industry produces only 8 percent of GNP in the West Bank and 9 percent in Gaza, well below the percentage of labor forces which it employs. The obvious implication is that the sector is not very efficient, a conclusion which is bolstered by seeing the actual operations.

The most rapidly expanding area of manufacturing may be in construction materials. As mentioned elsewhere, there has been a building boom in the West Bank and Gaza in recent years and there is a growing demand for a wide range of building materials: tiles, bricks, dressed stones and hundreds of other minor construction items. These operations can be established with relatively low capital inputs and on a small scale.

Somewhat like in agriculture, Arabs from the occupied territories claim that the Israeli government inhibits the production of goods in the West Bank which are competitive with Israeli products. For example, the claim is made that the West Bank has neither a cement nor fertilizer plant because of Israeli desires to keep the market for themselves. However, this does not seem to be the main constraint on the expansion of manufacturing output in the occupied areas. The main obstacles that will have to be overcome are a lack of risk capital, a shortage of entrepreneurial ability and an unwillingness by potential investors to make any kind of long term commitment until political stability has been established and a favorable view of the future seems possible.

Yet, it is in the area of industrial output that many West Bankers and Gazans believe that the future of their economy must lie. They speak with enthusiasm about the idea of a host of small scale, "high technology facilities producing electronic components, drugs and a series of high quality consumer and producer goods. They see these factories growing behind an infant industry protective tariff wall with the output going to the Arab states or, in some cases, exported in the world market. Very few Arabs like the idea of being tied closely in the industrial sector to the Israeli economy. They fear being exploited by what they consider the large "colonialist" economy in Israel.

If the West Bank/Gaza Strip were an economic union with Israel under a future peace agreement, no doubt some Arab investment capital would be withheld out of distaste for the arrangement.

C. The Services Sector

Public and private services constitute 41 percent of GNP in the West Bank and 49 percent in Gaza. These large proportions are not unusual for less developed economies. It includes the entire governmental apparatus, such as the 16,500 West Bank and Gaza employees of the Israel military administration in the occupied territories, hospital staffs, schoolteachers, etc. In public and community services the numbers are probably not excessive and cannot be expected to decline significantly over time. In the private services area there is more room for change and improved efficiency. The retail trade is very undeveloped. To own a tiny shop seems to be the lifetime ambition of a large part of the population. It somehow seems to be linked in peoples' minds to a form of social security. Services activities, frequently of a marginal nature, are used by refugees as a supplement to the income they receive from other sources. There is another problem of social attitude. White collar jobs are traditionally preferred over production work, even if the latter pays more. The Chief

of Vocational Training in the West Bank recently said with pride that one of his six sons had opted to become a skilled craftsman. The other five work in offices. He thought that was great progress.

On balance the configuration of the services sector should not be a cause for great economic concern. As the economy of the occupied territories expands, the relative share of services in GNP should remain more or less constant, but the quality and composition of services should change. It is important in terms of economic well-being that the public services segment be kept lean and not used as an employer of last resort for those who are unable to find office jobs elsewhere.

V. Economics and the Peace Process

The following conclusions relating to economics and the peace process flow from the analysis above:

- Whatever the nature of the political settlement, the West Bank and Gaza will need open borders with Israel, Jordan and the rest of the world for the foreseeable future to maximize their economic potential. For goods, people and capital to be able to flow between Gaza and the West Bank, they must transit Israel. This implies a customs union and free trade area of the three. Economic ties with Jordan are not a substitute for the Israeli connection so far as Gaza is concerned because of the physical separation of territory. In the absence of a free trade area and customs union, a no-access road or sealed-car railway system would have to be established through Israeli territory. The borders everywhere else would have to be tightly controlled to prevent wholesale smuggling. These arrangements would be self-defeating in the economic sense.
- Large numbers of additional refugees cannot be absorbed by the economies of the West Bank and Gaza. Employment in agriculture will expand slowly, if at all, and industrial employment opportunities

in the years ahead will be needed for the large number of young people already in the population profile about to enter the labor market. Jobs must also be available for expansion of women in the work force if a substantial per capita GNP growth rate is to be achieved. The economy probably could support a modest refugee influx if this were accompanied by a large housing and public services construction program financed by foreign aid. The development of an industrial base will depend for years on the importation of most of the capital, technology, and entrepreneurial skills. The latter two factors of production do not exist in adequate amounts in the West Bank and Gaza and local capital will not be forthcoming in large amounts until political stability and economic success in the areas are well proven.

- Disposition of much of the industrial output for the medium term will require the conscious decision of the importing states, except perhaps Israel and Jordan, to accept these goods for non-economic reasons. An element of subsidy will be involved. Any attempt to protect West Bank-Gaza infant industry from Israeli competition will almost certainly lead to progressive raising of trade barriers by both sides with terribly wasteful economic results. The Gaza-West Bank economic model could be similar to that followed by Hong Kong and Singapore: the best prospects for a small economy with few internal resources is to specialize in labor-intensive industrial operations in conjunction with more advanced economies.
- Tourism could become a major industry for both areas. In the West Bank, the future political status of Jerusalem will be important to tourism development.
- Any peace agreement must provide for an equitable distribution of water supplies among Israel, Gaza, the West Bank and Jordan.
- The Israeli residential and industrial settlements in the occupied territories could continue to exist there for the economic benefits of both Arabs and

Jews. The same probably is not true of the agricultural settlements along the Jordan River, where Israeli use of very limited supplies of water and good land would be at the expense of the Arabs (see Table 9 for population and land area data on rural settlements in occupied territory).

TABLE 1

Basic Economic Data on West Bank and Gaza
(1975 Unless Otherwise Indicated)

	<u>Total Areas</u>	<u>West Bank</u>	<u>Gaza and Northern Sinai</u>
1. Average Population	1,106,800	680,500	426,400
2. Working Age Population	591,800	366,800	225,000
3. Employed in the Areas	141,700	92,000	46,700
4. Employed in Israel	66,300	40,400	26,100
5. Total Employed	204,900	132,400	72,600
6. Unemployment Rate	0.9%	1.1%	0.6%
7. Rate of Natural Population Increase	3.14%	2.92%	3.50%
8. Rate of Population Growth	1.7%	0.9%	3.1%
9. GNP (millions of dollars)	723	500	223
10. GNP per Capita (dollars)	650	790	520
11. Exports (millions of dollars)	305	181	123
12. Imports (millions of dollars)	409	231	177
13. Import Surplus (millions of dollars)	104	50	54
14. Total Resources (millions of dollars)	828	560	268
15. Annual GNP Growth (1967-75)	14%	14%	14%
16. Annual Average GDP Growth (1968-75)	10%	-	-

TABLE 2

Land and Its Uses
(in dunams)¹

	<u>Occupied Areas</u>	<u>West Bank</u>	<u>Gaza</u>
Land Area	6,370,000	6,000,000	370,000
Cultivated	2,210,000	2,000,000	210,000
Irrigated	175,000	80,000	95,000
Population Density (population per square mile)	443	290	3,000

¹One dunam equals 1,000 square meters, equals approximately 1/4 acre, equals 1/10 hectare.

TABLE 3

Employment of West Bank and Gaza Labor in the
Occupied Areas and Israel
(in percentages in 1975)

	<u>Total</u>	<u>West Bank</u>	<u>Gaza</u>	<u>Israel</u>
Agriculture	32	35	26	15
Industry	14	16	13	13
Construction	7	7	4	55
Public & Community Services	18	17	19	5
Trade, Transport and Services	29	24	38	8

TABLE 4

GNP by Sector, 1974-75 Average
(in percentages)

	<u>West Bank</u>	<u>Gaza</u>	<u>** Total Occupied Areas</u>
Agriculture	38	28	-
Industry	8	9	-
Construction	13	14	-
Public and Community Services	13	22	-
Commerce, Transport and Other Services	28	27	-
Total Domestic Product	<u>100</u>	<u>100</u>	
Domestic Product	77	71	75
Factor Income from Abroad (net)	23	29	25
GNP	<u>100</u>	<u>100</u>	<u>100</u>

TABLE 5

Gross National Product at Factor Cost, by Economic Sector, 1967-75
 (\$ million, at 1974 prices)

	Average			Percent average annual change		
	1968-69	1972-73	1974-75	1968-69 to 1974-75	1968-69 to 1972-73	1972-73 to 1974-75
<u>Judea and Samaria</u>						
Agriculture	78	113	143	11	10	13
Industry	17	36	32	10	11	9
Construction	9	31	49	32	35	27
Public and community services	35	45	49	6	7	4
Commerce, transport, other services ^a	64	102	110	9	12	4
Gross domestic product	<u>203</u>	<u>317</u>	<u>383</u>	<u>11</u>	<u>12</u>	<u>10</u>
Factor income from Abroad	21	103	116	32	48	6
Less: Factor payments abroad	4	4	4	-	-	-
GNP (at factor cost)	<u>220</u>	<u>416</u>	<u>495</u>	<u>14</u>	<u>17</u>	<u>9</u>

Table 5 continued on next page.

a) Includes errors and omissions

TABLE 5 - continued

	Average			Percent average annual change		
	1963-69	1972-73	1974-74	1963-69 to 1974-75	1963-69 to 1972-73	1972-73 to 1974-75

Gaza Strip

Agriculture	21	36	40	12	15	7
Industry	3	9	12	23	27	15
Construction	5	18	23	30	41	11
Public and community services	21	32	33	8	11	1
Commerce, transport, other services ^a	45	46	45	-	-	-
Gross domestic product	<u>95</u>	<u>141</u>	<u>153</u>	<u>8</u>	<u>11</u>	<u>4</u>
Factor income from abroad	4	51	67	60	89	14
Less factor payments abroad	2	2	2	-	-	-
GNP (at factor cost)	<u>97</u>	<u>190</u>	<u>218</u>	<u>14</u>	<u>18</u>	<u>7</u>

Total Occupied Areas

Gross domestic product	<u>298</u>	<u>458</u>	<u>536</u>	<u>10</u>	<u>11</u>	<u>8</u>
Gross national product	<u>317</u>	<u>606</u>	<u>713</u>	<u>14</u>	<u>17</u>	<u>8</u>

a) Includes errors and omissions

TABLE 6

Resources and Uses in the Occupied Areas, 1973-75
(in millions of dollars at 1974 prices)

	West Bank					Gaza Strip				
	1973	1974	1975	Percent Quantitative Change		1973	1974	1975	Percent Quantitative Change	
				1974	1975				1974	1975
Private consumption	374	405	426	8	5	165	180	196	9	9
Public consumption	48	49	48	2	-1	27	27	16	-	-3
Gross investment ^a	59	120	86	103	-28	43	44	46	2	5
Total domestic uses	<u>481</u>	<u>574</u>	<u>560</u>	<u>19</u>	<u>-2</u>	<u>235</u>	<u>251</u>	<u>268</u>	<u>7</u>	<u>7</u>
Imports ^b	256	275	315	7	15	150	170	208	14	22
Exports ^c	191	230	255	20	11	121	137	163	13	18
Import surplus	65	45	60	-31	33	29	33	45	14	36
Gross national product (at market prices)	416	529	500	27	-6	206	218	223	6	2
Total resources	<u>481</u>	<u>574</u>	<u>560</u>	<u>19</u>	<u>-2</u>	<u>235</u>	<u>251</u>	<u>268</u>	<u>7</u>	<u>7</u>

- a) Gross investment includes changes in olive oil stocks in the West Bank; a rise of IL 125 million in 1974 and a decline of IL 80 million in 1975 (at 1974 prices).
- b) Imports include import taxes and factor payments abroad (Israelis working in the occupied areas).
- c) Exports include indirect tax rebates to exporters and factor income from abroad.

TABLE 7

Balance of Payments of the Occupied Territories, 1975
(millions of US dollars)¹

	<u>Occupied Areas</u>	<u>West Bank</u>	<u>Gaza</u>
Import (goods)	409	231	177
Exports	305	181	123
Goods	194	111	83
Services (net)	111	70	40
Transportation	-5	-3	-2
Insurance	-4	-3	-1
Travel Abroad	-11	-11	0
Investment Income	1	1	0
Government	-4	-2	-2
Labor	180	117	63
Other	-46	-30	-16
Unilateral Transfers (net)	16	2	14
Private Transfers (net)	32	16	16
Israeli Government	-16	-14	-2
Total Net Capital Movements	87	49	38

¹Not all rows and columns add because of rounding.

TABLE 8

Origin and Composition of Trade of the Occupied Areas
(in percentages)¹

	<u>Combined Areas</u>	<u>West Bank</u>	<u>Gaza</u>
Exports to Jordan	27	33	20
Exports to Israel	65	64	64
Exports to ROW ²	8	1	16
Imports from Jordan	2	2	0
Imports from Israel	91	89	5
Imports from ROW ²	7	9	95
Agricultural Exports	31	20	45
Industrial Exports	69	80	55
Agricultural Imports	17	17	15
Industrial Imports	83	83	85

¹Percentages are rounded and do not always add to 100.

²Rest of the world.

TABLE 9

Population and Land Areas of Israeli Rural
Settlements in Occupied Territories (1977)

<u>Settlement</u>	<u>People</u>	<u>Land Area in Dunams</u> (irrigated)	
Golan	3,388	32,600	(26,800)
Jordan Valley	1,472	19,020	(15,460)
Etzion Bloc, Ayalon Valley and West Bank Ridge	2,096	3,300	(3,100)
Sinai and Rafah Approaches	<u>1,934</u>	<u>5,480</u>	<u>(4,500)</u>
Total	8,890	60,400	(49,860)